

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Saline, Michigan</u>	County Washtenaw
Audit Date June 30, 2004	Opinion Date August 20, 2004	Date Accountant Report Submitted To State: November 5, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 350 S. Main Street, Suite 200	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Saline, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Saline, Michigan

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## Independent Auditor's Report

To the City Council  
City of Saline, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Saline's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saline, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council  
City of Saline, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Saline's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2004 on our consideration of the City of Saline's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

August 20, 2004

Our discussion and analysis of the City of Saline's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was again reduced by the State of Michigan this fiscal year to about one-third below the long-term trend level. This accounted for part of the decrease in the General Fund balance. Due to some lasting changes that have caused weakened revenues and additional new costs, the City tax rates were adjusted to maintain a prudent fund balance projected over the next several years.
- Total unrestricted net assets related to the City's governmental activities decreased by approximately \$674,000. A significant portion of the decrease in unrestricted assets was a one-time cost from a multi-year settlement of tax appeals by the largest taxpayer, requiring large tax rebates as the taxable valuation was reduced by approximately 20 percent. This was the last major cost impact expected from the State Tax Commission changes to the personal property multipliers. Therefore, the tax revenue stream is expected to now grow incrementally each year.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can provide an approximate measure of the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current assets	\$ 7,191	\$ 3,435	\$ 3,442	\$ 3,290	\$ 10,633	\$ 6,725
Noncurrent assets	<u>30,976</u>	<u>32,172</u>	<u>31,783</u>	<u>27,446</u>	<u>62,759</u>	<u>59,618</u>
Total assets	38,167	35,607	35,225	30,736	73,392	66,343
<b>Liabilities</b>						
Current liabilities	2,332	1,927	2,925	961	5,257	2,888
Long-term liabilities	<u>14,425</u>	<u>11,277</u>	<u>8,763</u>	<u>7,855</u>	<u>23,188</u>	<u>19,132</u>
Total liabilities	<u>16,757</u>	<u>13,204</u>	<u>11,688</u>	<u>8,816</u>	<u>28,445</u>	<u>22,020</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	15,453	19,264	21,238	17,752	36,691	37,016
Restricted	5,255	1,763	1,288	1,221	6,543	2,984
Unrestricted	<u>702</u>	<u>1,376</u>	<u>1,011</u>	<u>2,947</u>	<u>1,713</u>	<u>4,323</u>
Total net assets	<u>\$ 21,410</u>	<u>\$ 22,403</u>	<u>\$ 23,537</u>	<u>\$ 21,920</u>	<u>\$ 44,947</u>	<u>\$ 44,323</u>

As we look at the governmental activities separately from the business-type activities, we note that unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by approximately \$674,000. The City reacted by increasing the local tax rate by 0.77 mills for the next fiscal year. The current level of unrestricted net assets for all of our governmental activities stands at approximately \$702,000, or about 6.2 percent of the total governmental expenditures for the primary governmental activities (not including the business-type activities or the component units).

A significant portion of the decrease in unrestricted net assets came from a one-time expenditure related to the tax rebates from negotiated settlement of most of the tax appeals (as described in the financial highlights), expenditures related to the new municipal building and new industrial park, and lower levels of state revenue sharing. During 2005, the City also started a 30-year payment schedule toward fully funding the unfunded retiree health liability. With the increased tax rate and expected annual increases in revenues, the unrestricted net assets are now projected to grow each year.



# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended June 30, 2004 as compared to the prior year (in thousands):

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,558	\$ 2,289	\$ -	\$ -	\$ 2,558	\$ 2,289
Operating grants and contributions	553	490	645	623	1,198	1,113
Capital grants and contributions	805	1,416	901	2,090	1,706	3,506
General revenue:						
Property taxes	4,824	3,908	-	-	4,824	3,908
State-shared revenue	1,128	982	-	-	1,128	982
Unrestricted investment earnings	62	118	56	60	118	178
Proceeds from the sale of capital assets	121	-	-	-	121	-
Miscellaneous	48	149	-	-	48	149
Water and sewer	-	-	2,563	2,427	2,563	2,427
Total revenue	10,099	9,352	4,165	5,200	14,264	14,552
<b>Program Expenses</b>						
General government	2,367	2,367	-	-	2,367	2,367
Public safety	2,243	2,168	-	-	2,243	2,168
Public works	1,152	1,130	-	-	1,152	1,130
Cemetery	91	140	-	-	91	140
Recreation and culture	2,056	1,824	-	-	2,056	1,824
Legislative	56	59	-	-	56	59
Building department	251	244	-	-	251	244
Highways and streets	1,938	1,170	-	-	1,938	1,170
Other	85	82	-	-	85	82
Interest on long-term debt	711	676	-	-	711	676
Unallocated	142	142	-	-	142	142
Water and sewer	-	-	2,548	2,557	2,548	2,557
Total program expenses	11,092	10,002	2,548	2,557	13,640	12,559
<b>Change in Net Assets</b>	<b>\$ (993)</b>	<b>\$ (650)</b>	<b>\$ 1,617</b>	<b>\$ 2,643</b>	<b>\$ 624</b>	<b>\$ 1,993</b>

Two major sources that moderated revenues experienced were lower return on investments due to low interest rates and the significantly reduced receipts from personal property taxes due to the new set of multipliers that result in faster depreciation. The tax receipts as a whole were also reduced because of Proposal A. Some extraordinary additional costs for the General Fund were the debt service for the 2001 street bonds, the debt service for the new municipal building, increased operational costs for a new municipal building, and the increased operational dependence of the recreational complex after the TIFA operational support had expired. Because tax settlements had absorbed some of the cash balance and the national recession had cut back the revenues from the sale of municipally owned industrial park land, in June 2004 the City Council increased the city tax rate for the following fiscal year to 13.72 mills. The financial planning projection at this constant tax rate (which still has over 3.6 mills or 33 percent excess taxing capacity under the Headlee limitation) is that the undesignated fund balance in the General Fund will increase to over 20 percent of budgeted expenditures within the next five years.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

The City's total governmental revenues increased by approximately \$747,000, from \$9,352,000 to \$10,099,000. This result was achieved despite continued shortages in State-shared revenues, modest land sales receipts, and low interest income. This was primarily due to the continuing increase in property taxes, which offset some of the negative factors.

The City's governmental expenses increased by approximately \$1,090,000, from \$10,002,000 to \$11,092,000. The most significant increase was for various repairs and maintenance expenses related to various highway and street projects.

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide drinking water to City residents from our municipal water system from underground wells. We provide sewage treatment through a City-owned and -operated sewage treatment plant. In 2003-2004, the City's water losses were relatively low while the number of water accounts continued to steadily increase. This resulted in a net operating income for the third year in a row, which reversed operating losses in the two previous years.

The municipality has ensured adequate funding for its business-type water and sewer activities by increasing the utility rates to cover all projects, operations, and maintenance of the utility systems. In August 2003, after a water system revenue study, the City Council adopted new water rates through 2008 which will ensure cash coverage ratios of 1.45 to 2.0 on the debt service. Construction of a new water treatment plant is progressing well, which will improve the aesthetics of the drinking water when completed in the spring of 2005.

### The City's Funds

Our analysis of the City's major funds begins with the governmental funds balance sheet, following the government-wide financial statements that immediately follow this discussion. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, the Major Streets Fund, the Local Streets Fund, the Municipal Streets Fund, the Saline Recreation Complex Fund, and the Capital Projects - Building Authority Fund.

General Fund expenditures for general government and public works remained relatively unchanged during the year. Various increases in other functions were led by large increases in health care costs and property insurance rates. To offset this, the City reduced spending in other areas, including the reduction of seasonal hiring, delaying the filling of vacant positions, and deferring new equipment purchases. In addition, expenditures on streets utilized the construction funds remaining from the 2001 street bonds.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are general government, public safety, and public works, which incurred expenses of approximately \$5,528,000 in 2004. These services are partially supported by a special refuse millage which is recorded in the General Fund (see Note 16). The remaining departments are funded by other various general revenue sources of the General Fund.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. The most significant revenue changes were a slight increase in tax receipts due to some gains in taxable valuations, a decrease in State revenue, a decrease in project transfers due to a decrease in projects, a decrease in expected interest on investments when the economic forecasts of a rebounding economy did not materialize, and a decrease in industrial land sales receipts due to a lag in the development of some industrial properties. The most significant expenditure changes were a slightly lower tax refund allocation sufficient to cover unresolved items, an additional cash contribution to complete the municipal building construction project, and an additional contribution needed to cover the operations of the recreation complex. City departments overall stayed below budget, which resulted in total expenditures below budget. The amended budget had anticipated that the General Fund's fund balance would decrease by about one-third. The actual fund balance at June 30, 2004 turned out to be slightly above the expected range.

The municipality had been tightening budgets because tax revenue gains were being moderated by reductions in personal property tax valuation as well as by Proposal A, and there were new higher costs (the municipal building, recreation complex, and new debt). Since the recession reduced the flow of revenues from the sale of municipal industrial land, the City increased its local tax rate to 13.72 mills for the next fiscal year, thereby projecting sufficient revenues for the General Fund. This tax rate is projected to increase the undesignated fund balance in the General Fund to over 20 percent of budgeted expenditures within the next five years.

### **Capital Asset and Debt Administration**

At the end of the 2004 fiscal year, the City had over \$60 million invested in a broad range of capital assets, including land, buildings, streets, police and fire equipment, and water and sewer lines. In addition, the City was planning to budget approximately \$9 million in additional infrastructure improvements (majority to come from remaining bond proceeds on hand) over the subsequent three years. Several of the most pressing infrastructure investments have been done over the past half-dozen years. Mainly due to successfully completing a wellhead protection program, the municipality was able to obtain a priority ranking, so that it was selected for the low-cost state Drinking Water Revolving Fund program. The scope of the water system improvements during the past few years is a major factor in the continued improvement of the municipality's ISO insurance rating last year, from a 6 to a 5, thereby lowering some insurance costs within the city limits.

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

During 2004, through the Michigan Municipal Bond Authority, the City obtained financing of up to \$6.84 million at 2.5 percent for its water system improvement projects, based on its existing 2001 UTGO bond ratings of A from Standard & Poor's and A2 from Moody's. The City also issued the \$2,375,000 Building Authority Refunding Bonds and the multi-purpose (streets and water/sewer improvements) \$4,660,000 Unlimited Tax General Obligation Bonds. Standard & Poor's upgraded the rating to A+ for these bonds. Below is a summary of various debt ratios, the legal debt margin, and authorized financing as estimated for the upcoming year. The City has debt equal to about one-half of its debt limit. The City's tax base growth is changing to a larger proportion of residential, but a healthy 44.0 percent continues to be non-residential taxable valuation as of the April 2004 apportionment report by the Washtenaw County Equalization Department.

<b>DEBT RATIOS (Net Direct and Indirect Debt as of April 27, 2004, including April 2004 issues)</b>		
Per Capita (8,940 estimated current population based on 8,034 in 2000 Census)	\$	2,967
Ratio to 2004 Taxable Value (\$454,075,115) Including full IFTs		5.84%
Ratio to 2004 State Equalized Valuation (\$523,919,000) Including full IFTs		5.06%
Ratio to 2004 Estimated True Cash Value (\$1,047,838,000) Including full IFTs		2.53%

<b>LEGAL DEBT MARGIN (Including April 2004 Bonds, per Michigan P.A. 279 of 1909 as amended)</b>		
2004 State Equalized Valuation - Excluding IFT values	\$	482,389,800
Plus 2004 Industrial facilities tax State Equalized Valuation		41,529,200
Total 2004 valuation (with IFT-SEV at half)		503,154,400
<b>Debt Limit - 10 percent of total valuation</b>		50,315,440
Total debt outstanding (includes \$250,000 Renaissance Streets loan)		30,380,000
Less: Transportation Fund bonds	\$ (1,010,000)	
Revenue bonds	(2,720,000)	(3,730,000)
Total subject to debt limit		26,650,000
<b>Additional Debt Which Could Be Legally Incurred</b>	<b>\$</b>	<b>23,665,440</b>

<b>DEBT HISTORY AND FUTURE FINANCING</b>	
The City has no record of default and anticipates issuing the following tax-exempt debt during 2004 and 2005:	
2004 Installment Purchase Contract for Recreation Complex Swimming Pool equipment	\$ 413,400

# City of Saline, Michigan

## Management's Discussion and Analysis (Continued)

### Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2004-2005 fiscal year includes an increase in property tax rates to ensure maintaining more than 5 percent (and gradually returning to 20 percent) end-of-year fund balance in the General Fund each year. This can be accomplished partly due to the strong growth in our tax base. Because of the impact of Proposal A plus weak State government finances, the City needs to continue to closely watch its budget. The State-wide Tax Reform Act limits growth in taxable value on any individual property to 2.3 percent inflation as recently established for 2004 taxes (the 2004-2005 fiscal year) by the State Tax Commission. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (734) 429-4907, extension 209.

# City of Saline, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			
	Business-type			
	Activities			
	Governmental	(Water and		Component
	Activities	Sewer)	Total	Units
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 5,725,113	\$ 2,129,465	\$ 7,854,578	\$ 2,200,796
Investments (Note 3)	500,509	-	500,509	8,637
Receivables - Net (Note 4)	103,278	550,773	654,051	7,924
Due from other governmental units	344,425	-	344,425	-
Due from component units (Note 6)	517,230	746,025	1,263,255	-
Inventories	-	15,365	15,365	-
Restricted assets (Notes 3 and 9)	1,792	1,287,349	1,289,141	-
Investment in joint venture - Saline Area Fire Department	536,289	-	536,289	-
Capital assets (Note 5):				
Nondepreciated	1,343,574	4,718,890	6,062,464	40,749
Depreciated (Net)	29,094,372	25,777,123	54,871,495	-
Total assets	38,166,582	35,224,990	73,391,572	2,258,106
<b>Liabilities</b>				
Accounts payable	453,123	2,195,827	2,648,950	4,969
Due to primary government	-	-	-	1,263,255
Due to other governmental units	-	-	-	236,218
Accrued and other liabilities	487,238	122,815	610,053	7,924
Noncurrent liabilities (Note 8):				
Due within one year	1,391,008	605,942	1,996,950	60,000
Due in more than one year	14,425,302	8,763,281	23,188,583	295,000
Total liabilities	16,756,671	11,687,865	28,444,536	1,867,366
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	15,453,196	21,238,379	36,691,575	40,749
Restricted:				
Streets and highways	4,561,529	-	4,561,529	-
Solid waste and recycling	63,113	-	63,113	-
Debt service	1,792	258,000	259,792	-
Capital projects	2,707	1,029,349	1,032,056	-
Recreation complex	35,143	-	35,143	-
Cemetery perpetual care	590,316	-	590,316	-
Economic Development Trust	-	-	-	44,112
Unrestricted (Note 17)	702,115	1,011,397	1,713,512	305,879
Total net assets	<u>\$ 21,409,911</u>	<u>\$ 23,537,125</u>	<u>\$ 44,947,036</u>	<u>\$ 390,740</u>

# City of Saline, Michigan

	Expenses	Program Revenues		
		Charges for	Operating	Capital Grants
		Services	Grants and	and
			Contributions	Contributions
<b>Functions/Programs - Primary government</b>				
Governmental activities:				
General government	\$ 2,366,894	\$ 900,422	\$ 3,468	\$ -
Public safety	2,243,310	194,565	-	-
Public works	1,152,014	4,861	-	-
Cemetery	91,239	69,730	-	-
Recreation and culture	2,056,188	1,076,431	26,590	50,000
Legislative	55,967	-	-	-
Building department	251,451	254,455	-	-
Highways and streets	1,937,962	-	522,737	112,860
Other	85,321	57,208	-	-
Interest on long-term debt	710,508	-	-	641,950
Unallocated depreciation	141,721	-	-	-
Total governmental activities	11,092,575	2,557,672	552,795	804,810
Business-type activities - Water and Sewer	2,547,895	2,563,427	644,815	900,724
Total primary government	<b>\$ 13,640,470</b>	<b>\$ 5,121,099</b>	<b>\$ 1,197,610</b>	<b>\$ 1,705,534</b>
Component units:				
Economic Development Corporation	\$ 123,006	\$ 7,107	\$ 135,000	\$ -
Tax Increment Finance Authority	1,531,749	-	-	-
Local Development Finance Authorities	662,408	-	-	-
Economic Development Trust	119,878	21,670	-	-
Total component units	<b>\$ 2,437,041</b>	<b>\$ 28,777</b>	<b>\$ 135,000</b>	<b>\$ -</b>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Proceeds from the sale of capital assets				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,463,004)	\$ -	\$ (1,463,004)	\$ -
(2,048,745)	-	(2,048,745)	-
(1,147,153)	-	(1,147,153)	-
(21,509)	-	(21,509)	-
(903,167)	-	(903,167)	-
(55,967)	-	(55,967)	-
3,004	-	3,004	-
(1,302,365)	-	(1,302,365)	-
(28,113)	-	(28,113)	-
(68,558)	-	(68,558)	-
(141,721)	-	(141,721)	-
(7,177,298)	-	(7,177,298)	-
-	1,561,071	1,561,071	-
(7,177,298)	1,561,071	(5,616,227)	-
-	-	-	19,101
-	-	-	(1,531,749)
-	-	-	(662,408)
-	-	-	(98,208)
-	-	-	(2,273,264)
4,823,593	-	4,823,593	1,864,732
1,128,069	-	1,128,069	-
61,527	56,119	117,646	22,912
120,824	-	120,824	-
50,008	-	50,008	-
6,184,021	56,119	6,240,140	1,887,644
(993,277)	1,617,190	623,913	(385,620)
22,403,188	21,919,935	44,323,123	776,360
<b>\$ 21,409,911</b>	<b>\$ 23,537,125</b>	<b>\$ 44,947,036</b>	<b>\$ 390,740</b>



# City of Saline, Michigan

	Major Funds					
	General*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Capital Projects - Building Authority
<b>Assets</b>						
Cash and cash equivalents (Note 3)	\$ 244,212	\$ 185,621	\$ 130,976	\$ 4,403,846	\$ 125,315	\$ 2,707
Investments (Note 3)	500,509	-	-	-	-	-
Receivables - Net (Note 4)	85,249	-	-	2,031	14,909	-
Due from other governmental units	104,440	66,137	22,640	-	-	-
Due from other funds (Note 6)	493,209	81,575	-	-	-	-
Due from component units (Note 6)	119,135	398,095	-	-	-	-
Restricted assets (Notes 3 and 9)	-	-	-	-	1,792	-
Total assets	<b>\$ 1,546,754</b>	<b>\$ 731,428</b>	<b>\$ 153,616</b>	<b>\$ 4,405,877</b>	<b>\$ 142,016</b>	<b>\$ 2,707</b>
<b>Liabilities</b>						
Accounts payable	\$ 215,553	\$ 157,252	\$ 983	\$ 23,673	\$ 55,662	\$ -
Accrued and other liabilities	300,871	7,504	9,154	-	51,211	-
Due to other funds (Note 6)	749	-	-	530,826	-	-
Total liabilities	517,173	164,756	10,137	554,499	106,873	-
<b>Fund Balances</b>						
Reserved:						
Solid waste and recycling	63,113	-	-	-	-	-
Debt service	-	-	-	-	1,792	-
Capital projects	-	-	-	3,851,378	-	2,707
Cemetery perpetual care	-	-	-	-	-	-
Unreserved, reported in:						
General Fund:						
Designated (Note 13)	460,937	-	-	-	-	-
Undesignated	505,531	-	-	-	-	-
Special Revenue Funds	-	566,672	143,479	-	33,351	-
Total fund balances	1,029,581	566,672	143,479	3,851,378	35,143	2,707
Total liabilities and fund balances	<b>\$ 1,546,754</b>	<b>\$ 731,428</b>	<b>\$ 153,616</b>	<b>\$ 4,405,877</b>	<b>\$ 142,016</b>	<b>\$ 2,707</b>

\* See component information of the General Fund in the other supplemental information

**Governmental Funds  
Balance Sheet  
June 30, 2004**

Nonmajor Funds

Permanent Fund:		Total
Cemetery	Debt	Governmental
Perpetual Care	Service	Funds
\$ 632,436	\$ -	\$ 5,725,113
-	-	500,509
1,089	-	103,278
-	-	193,217
-	-	574,784
-	-	517,230
-	-	1,792
<u>\$ 633,525</u>	<u>\$ -</u>	<u>\$ 7,615,923</u>
\$ -	\$ -	453,123
-	-	368,740
43,209	-	574,784
<u>43,209</u>	<u>-</u>	<u>1,396,647</u>
-	-	63,113
-	-	1,792
-	-	3,854,085
590,316	-	590,316
-	-	460,937
-	-	505,531
-	-	743,502
<u>590,316</u>	<u>-</u>	<u>6,219,276</u>
<u>\$ 633,525</u>	<u>\$ -</u>	<u>\$ 7,615,923</u>

# City of Saline, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004**

<b>Total Fund Balances of Governmental Funds</b>	<b>\$ 6,219,276</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	30,437,946
Revenue-sharing due from State not received within 60 days of year end is not available currently and is not recorded in the funds	151,208
Investment in joint venture is not a financial resource and is not reported in the funds	536,289
Long-term liabilities, including compensated absences, are not due and payable in the current period and are not reported in the funds	(15,816,310)
Interest amounts on long-term liabilities are not payable until due in the funds	<u>(118,498)</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 21,409,911</u></b>

# City of Saline, Michigan

	Major Funds					
	General*	Special Revenue - Major Streets	Special Revenue - Local Streets	Special Revenue - Municipal Streets	Special Revenue - Saline Recreation Complex	Capital Projects - Building Authority
<b>Revenue</b>						
Property taxes	\$ 4,823,593	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	311,663	-	-	-	-	-
Federal sources	114,265	-	-	-	-	-
State sources	919,639	446,748	133,211	-	-	-
Charges for services	810,762	-	-	-	968,115	-
Fines and court costs	108,831	-	-	-	-	-
Interest earnings	27,406	-	4,117	10,819	1,287	1,480
Special assessments	2,063	-	-	-	-	-
Land sale collections	195,827	-	-	-	-	-
Other	338,029	-	-	-	77,140	-
Total revenue	7,652,078	446,748	137,328	10,819	1,046,542	1,480
<b>Expenditures</b>						
Current:						
General government	2,349,762	45,000	15,000	-	11,500	-
Public safety	2,073,051	-	-	-	-	-
Public works	1,104,857	-	-	-	-	-
Cemetery	35,831	-	-	-	-	-
Recreation and culture	454,061	-	-	-	1,166,881	-
Legislative	55,967	-	-	-	-	-
Building department	237,134	-	-	-	-	-
Engineering department	222,250	-	-	-	-	-
Highways and streets	-	475,067	143,834	380,222	-	-
Other	85,321	-	-	-	-	-
Capital outlay	331,912	-	-	-	48,977	10,000
Debt service	357,443	175,153	-	-	256,643	330,633
Total expenditures	7,307,589	695,220	158,834	380,222	1,484,001	340,633
<b>Excess of Revenue Over (Under) Expenditures</b>	344,489	(248,472)	(21,506)	(369,403)	(437,459)	(339,153)
<b>Other Financing Sources (Uses)</b>						
Transfers in (Note 6)	43,209	452,515	1,890	-	370,000	327,000
Transfers out (Note 6)	(872,186)	-	-	(279,219)	-	-
Transfer to escrow agent	-	-	-	-	(2,325,000)	-
Proceeds from the issuance of debt	-	-	-	4,500,000	2,375,000	-
Total other financing sources (uses)	(828,977)	452,515	1,890	4,220,781	420,000	327,000
<b>Net Change in Fund Balances</b>	(484,488)	204,043	(19,616)	3,851,378	(17,459)	(12,153)
<b>Fund Balances - Beginning of year</b>	1,514,069	362,629	163,095	-	52,602	14,860
<b>Fund Balances - End of year</b>	<u>\$ 1,029,581</u>	<u>\$ 566,672</u>	<u>\$ 143,479</u>	<u>\$ 3,851,378</u>	<u>\$ 35,143</u>	<u>\$ 2,707</u>

\* See component information of the General Fund in the other supplemental information

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2004**

Nonmajor Governmental Funds

Permanent Fund - Cemetery Perpetual Care	Debt Service	Total Governmental Funds
\$ -	\$ -	\$ 4,823,593
-	-	311,663
-	-	114,265
-	-	1,499,598
69,730	-	1,848,607
-	-	108,831
16,418	-	61,527
-	-	2,063
-	-	195,827
-	-	415,169
86,148	-	9,381,143
-	-	2,421,262
-	-	2,073,051
-	-	1,104,857
-	-	35,831
-	-	1,620,942
-	-	55,967
-	-	237,134
-	-	222,250
-	-	999,123
-	-	85,321
-	-	390,889
-	754	1,120,626
-	754	10,367,253
86,148	(754)	(986,110)
-	-	1,194,614
(43,209)	-	(1,194,614)
-	-	(2,325,000)
-	-	6,875,000
(43,209)	-	4,550,000
42,939	(754)	3,563,890
547,377	754	2,655,386
<b>\$ 590,316</b>	<b>\$ -</b>	<b>\$ 6,219,276</b>

# City of Saline, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ 3,563,890

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation (1,165,599)

Revenue-sharing is recorded in the statement of activities when the  
revenue is earned; it is not reported in the funds until collected  
or collectible within 60 days of year end 151,208

Accrued interest payable is recorded when due in  
governmental funds (37,318)

Change in joint venture equity interest is not a financial resource and  
is not reported in the governmental funds (28,950)

Bond proceeds are not reported as financing sources on the statement  
of activities 6,875,000

Repayment of bond principal and other long-term debt is an  
expenditure in the governmental funds, but not in the statement  
of activities (where it reduces long-term debt) (10,335,614)

Changes in compensated absences are recorded when earned in the  
statement of activities (15,894)

**Change in Net Assets of Governmental Activities** \$ (993,277)

# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2004

### Current Assets

Cash and cash equivalents (Note 3)	\$ 2,129,465
Customer receivables	550,773
Due from component units (Note 6)	746,025
Inventories	<u>15,365</u>
Total current assets	3,441,628

### Noncurrent Assets

Restricted assets (Notes 3 and 9)	1,287,349
Capital assets (Note 5):	
Nondepreciated	4,718,890
Depreciated - Net	<u>25,777,123</u>
Total noncurrent assets	<u>31,783,362</u>
Total assets	35,224,990

### Current Liabilities

Accounts payable	2,195,827
Accrued and other liabilities	122,815
Current portion of long-term debt (Note 8)	<u>605,942</u>
Total current liabilities	2,924,584

### Noncurrent Liabilities - Long-term debt - Net of current portion (Note 8)

	<u>8,763,281</u>
Total liabilities	<u>11,687,865</u>

### Net Assets

Investment in capital assets - Net of related debt	21,238,379
Restricted:	
Debt service	258,000
Wastewater treatment plant replacement	1,029,349
Unrestricted (Note 18)	<u>1,011,397</u>
Total net assets	<u><u>\$ 23,537,125</u></u>

# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

### Operating Revenue

Sale of water	\$ 785,622
Sewage disposal charges	1,654,623
Other charges for services	<u>123,182</u>
Total operating revenue	2,563,427

### Operating Expenses

Cost of water produced/purchased	418,421
Cost of sewage treatment	897,375
Operation and maintenance	103,525
General and administrative	231,602
Depreciation	<u>543,322</u>
Total operating expenses	<u>2,194,245</u>

### Operating Income

369,182

### Nonoperating Revenue (Expense)

Investment income	56,119
Interest expense	<u>(353,650)</u>
Total nonoperating expense	<u>(297,531)</u>

### Income - Before capital contributions

71,651

### Capital Contributions

Lines constructed by developers	154,700
Customer connection fees	644,815
Contributions from LDFA and TIFA	<u>746,024</u>
Total capital contributions	<u>1,545,539</u>

### Change in Net Assets

1,617,190

### Net Assets - Beginning of year

21,919,935

### Net Assets - End of year

\$ 23,537,125



# City of Saline, Michigan

## Proprietary Fund - Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2004

### Cash Flows from Operating Activities

Receipts from customers	\$ 2,371,251
Payments to suppliers	(671,489)
Payments to employees	(493,949)
Payments to General Fund for administrative costs	(231,602)
Other receipts	<u>123,182</u>

Net cash provided by operating activities 1,097,393

### Cash Flows from Capital and Related Financing Activities

Benefit charges received from customers	644,815
Contributions from financing authorities	464,097
Proceeds from issuance of long-term debt	1,518,544
Principal, interest, and other paid on capital debt	(956,474)
Acquisition of capital assets	<u>(2,957,859)</u>

Net cash used in capital and related financing activities (1,286,877)

Cash Flows from Investing Activities - Interest earnings 56,119

Net Decrease in Cash and Cash Equivalents (133,365)

Cash and Cash Equivalents - Beginning of year 3,550,179

Cash and Cash Equivalents - End of year **\$ 3,416,814**

### Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 2,129,465
Restricted investments (Note 3)	<u>1,287,349</u>

Total cash and cash equivalents **\$ 3,416,814**

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 369,182
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	543,322
Changes in assets and liabilities:	
Receivables	(68,994)
Accounts payable	249,915
Accrued and other liabilities	<u>3,968</u>

Net cash provided by operating activities **\$ 1,097,393**

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, developers constructed water and sewer lines with an estimated value of \$154,700 and donated them to the City's Water and Sewer Fund.

# City of Saline, Michigan

## Fiduciary Fund Statement of Assets and Liabilities June 30, 2004

	<u>Agency</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 96,518
Due from other governmental units	<u>68,632</u>
Total assets	<u><b>\$ 165,150</b></u>
<b>Liabilities</b>	
Accounts payable	\$ 28,696
Accrued and other liabilities	<u>136,454</u>
Total liabilities	<u><b>\$ 165,150</b></u>

# City of Saline, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2004

	Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Economic Development Trust	Totals
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 90,316	1,283,879	\$ 791,126	\$ 35,475	\$ 2,200,796
Investments (Note 3)	-	-	-	8,637	8,637
Receivables - Loans and land contracts	-	-	-	7,924	7,924
Capital assets (Note 5)	-	-	40,749	-	40,749
<b>Total assets</b>	<b>90,316</b>	<b>1,283,879</b>	<b>831,875</b>	<b>52,036</b>	<b>2,258,106</b>
<b>Liabilities</b>					
Accounts payable	4,359	-	610	-	4,969
Due to primary government (Note 6)	8,824	735,435	518,996	-	1,263,255
Due to other governmental units	-	236,218	-	-	236,218
Accrued and other liabilities	-	-	-	7,924	7,924
Noncurrent liabilities (Note 8):					
Due within one year	-	-	60,000	-	60,000
Due in more than one year	-	-	295,000	-	295,000
<b>Total liabilities</b>	<b>13,183</b>	<b>971,653</b>	<b>874,606</b>	<b>7,924</b>	<b>1,867,366</b>
<b>Net Assets (Deficit)</b>					
Investment in capital assets - Net of related debt	-	-	40,749	-	40,749
Restricted per trust guidelines	-	-	-	44,112	44,112
Unrestricted	77,133	312,226	(83,480)	-	305,879
<b>Total net assets (deficit)</b>	<b>\$ 77,133</b>	<b>\$ 312,226</b>	<b>\$ (42,731)</b>	<b>\$ 44,112</b>	<b>\$ 390,740</b>

# City of Saline, Michigan

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation	\$ 123,006	\$ 7,107	\$ 135,000
Tax Increment Finance Authority	1,531,749	-	-
Local Development Finance Authorities	662,408	-	-
Economic Development Trust	119,878	21,670	-
Total governmental activities	<b><u>\$ 2,437,041</u></b>	<b><u>\$ 28,777</u></b>	<b><u>\$ 135,000</u></b>

## General revenues:

Property taxes

Interest

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Component Units  
Statement of Activities  
Year End June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets				
Economic Development Corporation	Tax Increment Finance Authority	Local Development Finance Authorities	Economic Development Trust	Total
\$ 19,101	\$ -	\$ -	\$ -	\$ 19,101
-	(1,531,749)	-	-	(1,531,749)
-	-	(662,408)	-	(662,408)
-	-	-	(98,208)	(98,208)
19,101	(1,531,749)	(662,408)	(98,208)	(2,273,264)
-	1,190,143	674,589	-	1,864,732
437	11,755	8,874	1,846	22,912
437	1,201,898	683,463	1,846	1,887,644
19,538	(329,851)	21,055	(96,362)	(385,620)
57,595	642,077	(63,786)	140,474	776,360
<u>\$ 77,133</u>	<u>\$ 312,226</u>	<u>\$ (42,731)</u>	<u>\$ 44,112</u>	<u>\$ 390,740</u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Saline, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Saline, Michigan:

#### **Reporting Entity**

The City of Saline, Michigan is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Saline, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is a City-created and -directed authority whose sole business activity is acquiring and leasing property to the City. The Building Authority was created during the fiscal year ended June 30, 1990. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The assets of the Building Authority held for payment of construction costs associated with the new municipal building and outstanding bond issues are reported in the Capital Projects Fund and Saline Recreation Complex Special Revenue Fund, respectively, along with the related liability associated with the bond issue.

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the other supplemental information section.

- a. The Local Development Finance Authorities (LDFA) and the Tax Increment Finance Authority (TIFA) (collectively, the "Authorities") were created to promote economic growth and business development within the community. The Authorities' governing bodies each consist of 11 individuals who are selected by the City Council. In addition, each Authority's budget is subject to approval by the City Council.

### **Note I - Summary of Significant Accounting Policies (Continued)**

- b. The Economic Development Corporation (EDC) and Economic Development Trust (ED Trust) were created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's and the ED Trust's governing bodies each consist of 11 individuals who are selected by the City Council.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. For example: property taxes, State-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets and Local Streets Funds** - The Major Streets and Local Streets Funds account for repairs and maintenance of streets in the City which are financed primarily through State-shared revenues and miscellaneous local sources.



### Note 1 - Summary of Significant Accounting Policies (Continued)

**Municipal Street Fund** - The Municipal Street Fund is used to account for the development, construction, and improvements of major and local streets financed by the issuance of debt.

**Saline Recreation Complex Fund** - The Saline Recreation Complex Fund accounts for recreation and culture activities within the City which are financed through various user charges and miscellaneous local sources.

**Capital Projects - Building Authority** - The Capital Projects - Building Authority is used to account for the development of capital facilities other than those financed by the operations of a business-type fund.

The City reports the following major proprietary fund:

**Enterprise Fund** - The Enterprise Fund is used to account for the results of operations that provide water and sewer service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

**Agency Fiduciary Fund** - The Agency Fiduciary Fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

The proprietary fund, the Water and Sewer Fund, distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. In addition, the fund recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

**Investments** - Investments are reported at fair value, based on quoted market prices.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

### Note I - Summary of Significant Accounting Policies (Continued)

**Restricted Assets** - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. In addition, the bonds issued by the Saline Recreation Complex Fund require certain amounts be set aside for upcoming debt service payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

#### **Governmental Activities**

Infrastructure	10 to 50 years
Buildings and improvements	8 to 50 years
Vehicles and equipment	3 to 20 years

#### **Business-type Activities**

Land improvements	5 to 20 years
Water and sewer lines and laterals	75 to 100 years
Wellsite	50 years
Buildings, treatment plant, and equipment	10 to 40 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual revenues and expenditures to the General, Major Streets, Local Streets, Municipal Streets, and Saline Recreation Complex Funds' budgets as adopted by the City Council is included in the supplemental information. There were no significant expenditure budget overruns during the year with the exception of an overrun in the Major Streets Fund relating to higher than anticipated costs associated with various projects.

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City of Saline's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 5,725,113	\$ 2,129,465	\$ 7,854,578	\$ 96,518	\$ 2,200,796
Investments	500,509	-	500,509	-	8,637
Restricted assets	<u>1,792</u>	<u>1,287,349</u>	<u>1,289,141</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,227,414</u>	<u>\$ 3,416,814</u>	<u>\$ 9,644,228</u>	<u>\$ 96,518</u>	<u>\$ 2,209,433</u>

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Fiduciary Funds	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 9,138,419	\$ 96,518	\$ 2,200,796
Investments in interlocal agreement (MBIA-CLASS)	509	-	8,637
Investments in FHML securities	500,000	-	-
Petty cash or cash on hand	5,300	-	-
Total	<u>\$ 9,644,228</u>	<u>\$ 96,518</u>	<u>\$ 2,209,433</u>

The bank balance of the primary government's deposits is \$9,226,467, of which approximately \$727,000 is covered by federal depository insurance. The component units' deposits had a bank balance of \$2,952,820, of which approximately \$419,000 was covered by federal depository insurance.

#### Investments

Investments are categorized to give an indication of the level of risk assumed by the City. The City's investments during the year consisted of Federal Home Mortgage Loan securities totaling \$500,000 and bank investment pools totaling \$509. The City's investments in the Federal Home Mortgage Loan securities are categorized as a Risk Category 2, which would include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. The bank investment pools are not subject to categorization. Management believes that the investments in these funds comply with the investment authority noted above.

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	Major Governmental Funds			Nonmajor Governmental Funds -	
	General Fund	Municipal Street	Saline Recreation Complex	Cemetery Perpetual Care	Total
Receivables:					
Accounts	\$ 82,328	\$ -	\$ -	\$ -	\$ 82,328
Interest and other	<u>2,921</u>	<u>2,031</u>	<u>14,909</u>	<u>1,089</u>	<u>20,950</u>
Net receivables	<u>\$ 85,249</u>	<u>\$ 2,031</u>	<u>\$ 14,909</u>	<u>\$ 1,089</u>	<u>\$ 103,278</u>

### Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2003	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:					
Capital assets not being depreciated - Land	\$ 1,278,753	\$ -	116,103	\$ (51,282)	\$ 1,343,574
Capital assets being depreciated:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	31,999,752	-	748,258	-	32,748,010
Buildings and improvements	13,352,269	-	85,281	-	13,437,550
Vehicles and equipment	<u>2,975,125</u>	<u>-</u>	<u>49,132</u>	<u>(102,488)</u>	<u>2,921,769</u>
Subtotal	48,327,146	-	882,671	(102,488)	49,107,329
Accumulated depreciation:					
Infrastructure - Streets, sidewalks, curbs, storm sewers, and lighting	12,378,245	-	1,415,347	-	13,793,592
Buildings and improvements	3,941,239	-	470,683	-	4,411,922
Vehicles and equipment	<u>1,682,870</u>	<u>-</u>	<u>203,340</u>	<u>(78,767)</u>	<u>1,807,443</u>
Subtotal	<u>18,002,354</u>	<u>-</u>	<u>2,089,370</u>	<u>(78,767)</u>	<u>20,012,957</u>
Net capital assets being depreciated	<u>30,324,792</u>	<u>-</u>	<u>(1,206,699)</u>	<u>(23,721)</u>	<u>29,094,372</u>
Net capital assets	<u>\$ 31,603,545</u>	<u>\$ -</u>	<u>\$ (1,090,596)</u>	<u>\$ (75,003)</u>	<u>\$ 30,437,946</u>

# City of Saline, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 186,933	\$ -	\$ -	\$ -	\$ 186,933
Construction in progress	341,339	(2,857)	4,193,475	-	4,531,957
Subtotal	528,272	(2,857)	4,193,475	-	4,718,890
Capital assets being depreciated:					
Land improvements	7,141	-	-	-	7,141
Water and sewer lines and laterals	20,105,911	2,857	538,377	-	20,647,145
Wellsite	226,746	-	-	-	226,746
Buildings, treatment plant, and equipment	11,887,119	-	82,378	-	11,969,497
Subtotal	32,226,917	2,857	620,755	-	32,850,529
Accumulated depreciation:					
Land improvements	5,904	-	216	-	6,120
Water and sewer lines and laterals	2,054,939	-	243,805	-	2,298,744
Wellsite	27,158	-	4,535	-	31,693
Buildings, treatment plant, and equipment	4,442,083	-	294,766	-	4,736,849
Subtotal	6,530,084	-	543,322	-	7,073,406
Net capital assets being depreciated	25,696,833	2,857	77,433	-	25,777,123
Net capital assets	\$ 26,225,105	\$ -	\$ 4,270,908	\$ -	\$ 30,496,013

Depreciation expense was charged to programs of the governmental activities in the primary government as follows:

General government	\$ 126,429
Public safety	44,511
Public works	5,962
Cemetery	1,390
Recreation and culture	282,225
Building department	1,668
Highways and streets	1,485,464
Unallocated	141,721
Total governmental activities	<u>\$ 2,089,370</u>



### Note 5 - Capital Assets (Continued)

**Construction Commitments** - The City has various active construction projects at year end. The City's construction projects include the 2004 General Obligation Water Bond issue, 2004 Unlimited Tax General Obligation Bond issue, as well as various other City funds specifically allocated toward various capital improvements within the City. At year end, the City's commitments with contractors are as follows:

	Total Commitment	Spent to Date	Remaining Commitment
Water Treatment Plant	\$ 6,840,000	\$ 3,609,873	\$ 3,230,127
Major and Local Street Projects	4,500,000	636,385	3,863,615
Water and Sewer Projects	160,000	-	160,000
Recreation Complex Improvements	473,200	4,500	468,700
Water and Sewer Pump Station	503,000	412,354	90,646
Total	<u>\$ 12,476,200</u>	<u>\$ 4,663,112</u>	<u>\$ 7,813,088</u>

Capital assets of the component units consist of land of \$40,749 and fully depreciated equipment of \$97,034. There were no additions or disposals of capital assets in the component units during the year ended June 30, 2004.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Permanent Fund - Cemetery Perpetual Care	\$ 43,209
	Municipal Street Fund	450,000
Total General Fund		493,209
Major Streets Fund	Municipal Street Fund	80,826
	General Fund	749
Total Major Streets Fund		81,575
Total		<u>\$ 574,784</u>
Due to/from primary government and component units:		
Primary government - General Fund	Component unit - Economic Development Corporation	\$ 8,824
	Component unit - Local Development Finance Authorities	3,740
	Component unit - Tax Increment Finance Authority	106,571
Total General Fund		119,135
Primary Government - Major Streets Fund	Component unit - Tax Increment Finance Authority	130,782
	Component unit - Local Development Finance Authorities	267,313
Total Major Streets Fund		398,095
Total governmental activities		517,230
Primary Government - Enterprise Fund	Component unit - Tax Increment Finance Authority	498,082
	Component unit - Local Development Finance Authorities	247,943
Total business-type activities		746,025
Total		<u>\$ 1,263,255</u>

Interfund balances represent routine and temporary cash flow assistance resulting from normal interfund activity until the amounts can be reimbursed between the funds.

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Major Streets Fund (3)	\$ 175,186
	Capital Projects - Building Authority (3)	327,000
	Saline Recreation Complex Fund (2)	235,000
	Saline Recreation Complex Fund (3)	<u>135,000</u>
Total General Fund		872,186
Municipal Streets Fund	Major Streets Fund (1)	277,329
	Local Streets Fund (1)	<u>1,890</u>
Total Municipal Fund		279,219
Cemetery Fund	General Fund (1)	<u>43,209</u>
Total		<u><u>\$ 1,194,614</u></u>

The following describes the nature of the transfers:

- (1) Transfers for capital improvements
- (2) Transfers of discretionary funds to be used for the benefit of the community
- (3) Transfer for debt service

### Note 7 - Leases

**Operating Leases** - The Economic Development Corporation leases an office building under a long-term operating lease agreement expiring in October 2005 with approximate minimum lease payments of \$29,000.

Rent expense for the year ended June 30, 2004 was approximately \$27,600.

### Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

### Note 8 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:						
General obligation bonds:						
1979 General Obligation Unlimited Tax Bonds						
Amount of issue - \$400,000						
Maturing through 2010	\$5,000-\$25,000	6.40% - 7.00%	\$ 155,000	\$ (25,000)	\$ 130,000	\$ 25,000
1991 General Obligation Road Bonds (Unlimited Tax)						
Amount of issue - \$960,000						
Maturing through 2006	\$120,000-\$130,000	6.00% - 8.00%	355,000	(105,000)	250,000	120,000
1998 Transportation Fund Bonds						
Amount of issue - \$1,075,000						
Maturing through 2014	\$85,000-\$115,000	4.00% - 4.65%	1,010,000	(80,000)	930,000	85,000
1990 Building Authority General Obligation Limited Tax Bonds						
Amount of issue - \$4,750,000						
Maturing through 2014	-	-	2,625,000	(2,625,000)	-	-
2004 Building Authority (Recreational Facilities) Refunding Bond						
Amount of issue - \$2,375,000						
Maturing through 2010	\$310,000-\$430,000	2.50% - 3.00%	-	2,375,000	2,375,000	310,000
2000 Building Authority General Obligation Limited Tax Bonds						
Amount of issue - \$4,000,000						
Maturing through 2020	\$140,000-\$325,000	4.90% - 5.65%	3,675,000	(135,000)	3,540,000	140,000
2001 General Obligation Road Bonds (Unlimited Tax)						
Amount of issue - \$3,000,011						
Maturing through 2021	\$101,822-\$464,408	4.60% - 4.70%	2,878,323	(94,371)	2,783,952	101,823
2004 Unlimited Tax General Obligation						
Amount of issue - \$4,500,000						
Maturing through 2024	\$106,260-\$357,420	3.00% - 4.50%	-	4,500,000	4,500,000	-
Revenue bonds:						
1998 Revenue Bonds						
Amount of issue - \$1,000,000						
Maturing through 2008	\$28,080-\$33,920	4.00%	590,161	(115,130)	475,031	89,418
Installment purchase agreements:						
Land purchase obligation			216,969	(216,969)	-	-
Heating and cooling system purchase obligation			18,683	(17,916)	767	767
Total bonds and installment obligations			11,524,136	3,460,614	14,984,750	872,008
Compensated absences						
			815,666	15,894	831,560	519,000
Total governmental activities			<u>\$ 12,339,802</u>	<u>\$ 3,476,508</u>	<u>\$ 15,816,310</u>	<u>\$ 1,391,008</u>

### Note 8 - Long-term Debt (Continued)

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Business-type activities:</b>						
General obligation bonds:						
1999 General Obligation Limited Tax Bonds						
Amount of issue - \$1,197,279						
Maturing through 2018	\$50,000-\$77,279	2.50%	\$ 1,037,279	\$ (50,000)	\$ 987,279	\$ 50,000
1998 General Obligation Limited Tax Bonds						
Amount of issue - \$1,375,000						
Maturing through 2019	\$60,000-\$85,000	2.50%	1,150,000	(60,000)	1,090,000	60,000
1998 General Obligation Limited Tax Refunding Bonds						
Amount of issue - \$990,000						
Maturing through 2006	\$60,000-\$65,000	4.00% - 4.10%	280,000	(155,000)	125,000	65,000
2001 General Obligation Bonds						
Amount of issue - \$3,039,989						
Maturing through 2021	\$103,178-\$241,588	4.60% - 4.70%	2,916,677	(95,629)	2,821,048	103,178
2004 Unlimited Tax General Obligation Bonds						
Amount of issue - \$160,000						
Maturing through 2024	\$3,777-\$12,704	3.00% - 4.50%	-	160,000	160,000	-
2004 General Obligation Water Bond						
Amount of issue - \$6,840,000	\$253,544-\$265,000	2.50%		1,358,543	1,358,543	-
Revenue bonds:						
1987 Revenue Bonds						
Amount of issue - \$1,300,000						
Maturing through 2008	\$100,000-\$110,000	8.75%	520,000	(100,000)	420,000	100,000
1993 Revenue Bonds						
Amount of issue - \$350,000						
Maturing through 2009	\$25,000-\$60,000	5.90%	220,000	(20,000)	200,000	25,000
1998 Revenue Bonds						
Amount of issue - \$2,335,000						
Maturing through 2017	\$65,000-\$220,000	4.70%	2,080,000	(55,000)	2,025,000	65,000
Installment purchase agreement - Sand filter equipment obligation	\$70,764	5.15%	137,959	(67,195)	70,764	70,764
Total bonds and installment obligation			8,341,915	915,719	9,257,634	538,942
Compensated absences			131,674	(20,085)	111,589	67,000
Total business-type activities			\$ 8,473,589	\$ 895,634	\$ 9,369,223	\$ 605,942

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 872,008	\$ 655,607	\$ 1,527,615	\$ 538,942	\$ 350,017	\$ 888,959
2006	1,128,943	604,164	1,733,107	499,505	343,444	842,949
2007	1,055,714	567,184	1,622,898	727,742	318,801	1,046,543
2008	1,112,560	529,045	1,641,605	761,149	293,665	1,054,814
2009	1,027,960	488,672	1,516,632	757,040	272,100	1,029,140
2010-2014	3,706,402	1,911,909	5,618,311	2,927,142	964,335	3,891,477
2015-2019	3,650,128	1,016,783	4,666,911	2,439,872	397,288	2,837,160
2020-2022	2,431,035	277,323	2,708,358	606,242	43,431	649,673
Total	\$ 14,984,750	\$ 6,050,687	\$ 21,035,437	\$ 9,257,634	\$ 2,983,081	\$ 12,240,715

### Note 8 - Long-term Debt (Continued)

#### Additional Resources

The Local Development and Tax Increment Finance Authorities have committed to pay certain obligations of the City of Saline and to provide funding to the Economic Development Corporation to the extent that future property tax captures are sufficient to do so. The estimated amounts that may be paid under these commitments are as follows:

	Tax Increment Finance Authority	Local Development Finance Authority - Shelton District	Total
2005	\$ 654,635	\$ 458,706	\$ 1,113,341
2006	652,099	459,016	1,111,115
2007	654,117	463,465	1,117,582
2008	650,689	462,047	1,112,736
2009	592,788	447,489	1,040,277
2010-2014	1,774,292	2,124,150	3,898,442
2015-2019	818,482	1,323,864	2,142,346
2020-2021	330,795	360,642	691,437
Total	<u>\$ 6,127,897</u>	<u>\$ 6,099,379</u>	<u>\$ 12,227,276</u>

### Note 8 - Long-term Debt (Continued)

The estimated amounts that may be received by the City and the Economic Development Corporation under these commitments are as follows:

	City of Saline	Economic Development Corporation	Total
2005	\$ 978,341	\$ 135,000	\$ 1,113,341
2006	976,115	135,000	1,111,115
2007	982,582	135,000	1,117,582
2008	977,736	135,000	1,112,736
2009	905,277	135,000	1,040,277
2010-2014	3,223,442	675,000	3,898,442
2015-2019	2,142,346	-	2,142,346
2020-2021	691,437	-	691,437
Total	<u>\$ 10,877,276</u>	<u>\$ 1,350,000</u>	<u>\$ 12,227,276</u>

In addition, the Sauk Trail LDFA District has committed to repay the City monies advanced for projects performed within the School District during its initial startup. As of June 30, 2004, the commitment payable to the City's General and Major Streets Funds amounted to \$1,258,445 and \$283,998, respectively.

**Advance and Current Refundings** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2004, \$130,000 of bonds outstanding are considered defeased.

During the year ended June 30, 2004, the City defeased certain additional bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2004, \$2,325,000 of bonds outstanding are considered defeased. The advance refunding reduced total debt service payments over the next seven fiscal years by approximately \$291,000, which represents an economic gain of approximately \$272,000.

### Note 8 - Long-term Debt (Continued)

Long-term obligations of the component units can be summarized as follows:

	Principal Ranges Due in Future Years	Interest Rate Ranges in Future Years	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Component units - General obligation bonds - 1993 Limited Tax Bonds:						
Amount of issue - \$605,000						
Maturing through 2009	\$60,000-\$75,000	5.15%	\$ 410,000	\$ (55,000)	\$ 355,000	\$ 60,000

Annual debt service requirements to maturity for the above bond are as follows:

	Component Units		
	Principal	Interest	Total
2005	\$ 60,000	\$ 21,390	\$ 81,390
2006	70,000	17,850	87,850
2007	75,000	13,650	88,650
2008	75,000	9,150	84,150
2009	75,000	4,575	79,575
Total	\$ 355,000	\$ 66,615	\$ 421,615

### Note 9 - Restricted Assets

Restricted assets at June 30, 2004 consist of the following:

Governmental activities - Saline Recreation Complex - Bond payment	\$ 1,792
Business-type activities:	
Bond redemption	24,500
Water and sewer 10 percent bond reserve	233,500
Wastewater treatment plant replacement	1,029,349
Total business-type activities	1,287,349
Total	\$ 1,289,141



### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries and the Michigan Townships Participating Plan for claims related to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

### **Note 11 - Postemployment Benefits**

The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 21 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$224,000.

### **Note 12 - Pension Plan**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

### Note 12 - Pension Plan (Continued)

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by Council resolution and negotiation with the employee competitive bargaining units and requires no contribution from the employees.

**Annual Pension Costs** - For the year ended June 30, 2004, the City's annual pension cost of \$458,575 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases ranging from 4.5 percent to 8.66 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is seven years.

Trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension costs (APC)	\$ 458,575	\$ 418,556	\$ 457,011
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

  

	Year Ended December 31		
	2003	2002	2001
Actuarial value of assets	\$ 9,690,869	\$ 9,130,540	\$ 8,911,767
Actuarial accrued liability (AAL) (entry age)	\$ 13,304,568	\$ 12,494,600	\$ 11,612,748
Unfunded AAL (UAAL)	\$ 3,613,699	\$ 3,364,060	\$ 2,700,981
Funded ratio	73%	73%	77%
Covered payroll	\$ 3,068,565	\$ 2,975,046	\$ 2,933,732
UAAL as a percentage of covered payroll	118%	113%	92%

### Note 13 - Designated Fund Balance

Fund balance has been designated in the General Fund as follows:

Bixby Puppets donations	\$ 4,208
Celtic festival	72,939
DARE	20,537
E911 Secondary PSAP	106,626
Subsequent year's expenditures	<u>256,627</u>
Total	<u>\$ 460,937</u>

### Note 14 - Related Party Transactions

The City participates as a member of the Saline Area Fire Department, which provides fire protection services to the residents of the City of Saline and Lodi, York, and Saline Townships. The participating communities provide annual funding for its operations, fire runs, and capital improvements. During the current year, the City contributed the following:

Operations	\$ 242,552
Fire runs	<u>13,410</u>
Total	<u>\$ 255,962</u>

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Saline Area Fire Department can be obtained from the administrative offices at the City of Saline, 100 North Harris, Saline, Michigan.

### Note 15 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2004 is as follows:

Shortfall - Beginning of year	\$ (245,754)
Current year building permit revenue	254,455
Related expenses:	
Direct costs	\$ 237,134
Estimated indirect costs	<u>67,125</u>
Total construction code fees	<u>304,259</u>
Cumulative shortfall - End of year	<u><u>\$ (295,558)</u></u>

### Note 16 - Property Taxes

Property taxes in the City's General Fund are comprised of the following components:

	Solid Waste and			
	Recycling	Operating	Debt	Total
Taxable value	\$ 423,267,521	\$ 423,267,521	\$ 423,267,521	\$ 423,267,521
Millage rate	1.4500	10.9131	0.5869	12.9500
Levy	\$ 613,738	\$ 4,619,161	\$ 248,416	\$ 5,481,315

Revenue shown on the financial statements for property taxes are net of related revenues, including administrative fees, as well as various captures associated with the LDFA and TIFA.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 1, with the final collection date of February 28 before they are added to the county tax rolls.

### Note 16 - Property Taxes (Continued)

The solid waste and recycling millage was approved specifically for the use in providing those services to the City. The debt millage is dedicated to the retirement of specific long-term debt. To the extent property tax revenue exceeds related expenditures, the excess amounts are reserved for those specific uses. The activity relating to the solid waste and recycling and debt for the year ended June 30, 2004 is as follows:

	Solid Waste and Recycling	Debt
Revenue:		
Property tax revenue	\$ 506,058	\$ 248,416
Other	<u>26,882</u>	<u>-</u>
Total revenue	532,940	248,416
Direct expenses	<u>524,198</u>	<u>209,881</u>
Excess of expenditures over revenue	8,742	38,535
Reserved fund balance - Beginning of year	<u>54,371</u>	<u>(54,448)</u>
Reserved fund balance - End of year	<u>\$ 63,113</u>	<u>\$ (15,913)</u>

### Note 17 - Water and Sewer Unrestricted Net Assets

The City estimates that approximately \$1,100,000 will be needed during the next two years for various water and sewer improvements and construction. Therefore, the City believes that a majority of the Water and Sewer Fund's unrestricted net assets will be needed.

## **Required Supplemental Information**

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# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Property taxes	\$ 4,815,487	\$ 4,777,621	\$ 4,823,593	\$ 45,972
Licenses and permits	293,000	301,500	311,663	10,163
Federal sources	154,000	147,468	114,265	(33,203)
State sources	954,077	959,849	919,639	(40,210)
Charges for services	781,689	787,408	810,762	23,354
Fines and court costs	70,000	85,300	108,831	23,531
Interest earnings	117,000	48,000	27,406	(20,594)
Special assessments	3,000	2,000	2,063	63
Land sales collections	300,000	582,000	195,827	(386,173)
Other	719,300	291,432	338,029	46,597
Total revenue	8,207,553	7,982,578	7,652,078	(330,500)
<b>Transfer from Other Funds</b>	-	90,000	43,209	(46,791)
Total revenue and transfers	8,207,553	8,072,578	7,695,287	(377,291)
<b>Expenditures</b>				
General government:				
Administration	1,295,332	927,103	941,350	(14,247)
Finance department	190,982	187,882	192,893	(5,011)
Assessor department	157,384	161,423	163,284	(1,861)
Clerks department	287,047	290,647	281,369	9,278
Treasurer department	273,187	336,987	323,783	13,204
Municipal buildings	104,137	99,628	129,009	(29,381)
Service center	79,873	100,873	54,026	46,847
Zoning board of appeals	2,100	2,100	242	1,858
Motor pool	253,216	272,316	243,344	28,972
Planning Commission	28,950	28,950	20,462	8,488
Total general government	2,672,208	2,407,909	2,349,762	58,147
Public safety:				
Police	1,820,762	1,887,224	1,788,804	98,420
Fire	284,024	285,288	284,247	1,041
Total public safety	2,104,786	2,172,512	2,073,051	99,461

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Expenditures (Continued)</b>				
Public works:				
Emergency preparedness	\$ 2,750	\$ 2,750	\$ 1,303	\$ 1,447
Public works	311,452	298,404	307,924	(9,520)
Storm drains	121,122	80,122	53,070	27,052
Sidewalks	34,054	29,054	18,159	10,895
Street lights	200,749	243,169	175,457	67,712
Mosquito control	29,000	29,000	24,746	4,254
Solid waste and recycling	581,643	538,283	524,198	14,085
Total public works	1,280,770	1,220,782	1,104,857	115,925
Cemetery	65,433	95,933	35,831	60,102
Recreational and cultural:				
Historical Commission	14,147	14,147	14,016	131
Parks and beautification	372,315	390,445	321,216	69,229
Celtic festival	97,400	97,400	118,829	(21,429)
Total recreation and culture	483,862	501,992	454,061	47,931
Debt service	250,110	357,465	357,443	22
Legislative:				
City Council	58,050	56,550	47,012	9,538
Elections	26,900	10,475	8,955	1,520
Total legislative	84,950	67,025	55,967	11,058
Engineering department	273,934	230,434	222,250	8,184
Building department	257,028	250,628	237,134	13,494
Capital outlay	272,800	351,477	331,912	19,565
Other	99,561	91,561	85,321	6,240
Total expenditures	7,845,442	7,747,718	7,307,589	440,129
<b>Transfers to Other Funds</b>	<u>1,247,186</u>	<u>822,970</u>	<u>872,186</u>	<u>(49,216)</u>
Total expenditures and transfers	<u>9,092,628</u>	<u>8,570,688</u>	<u>8,179,775</u>	<u>390,913</u>
<b>Excess of Expenditures and Transfers Over Revenue and Transfers</b>	(885,075)	(498,110)	(484,488)	<u><u>\$ 13,622</u></u>
<b>Fund Balance - Beginning of year</b>	<u>1,514,069</u>	<u>1,514,069</u>	<u>1,514,069</u>	
<b>Fund Balance - End of year</b>	<u><u>\$ 628,994</u></u>	<u><u>\$ 1,015,959</u></u>	<u><u>\$ 1,029,581</u></u>	



# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major Streets Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
State sources	\$ 415,229	\$ 456,558	\$ 446,748	\$ (9,810)
Interest earnings	20,000	-	-	-
Other	115,000	-	-	-
Total revenue	550,229	456,558	446,748	(9,810)
<b>Transfer from Other Funds</b>	330,186	175,186	452,515	277,329
Total revenue and transfers	880,415	631,744	899,263	267,519
<b>Expenditures</b>				
General government	45,000	45,000	45,000	-
Highways and streets	729,829	373,914	475,067	(101,153)
Debt service	175,272	175,272	175,153	119
Total expenditures	950,101	594,186	695,220	(101,034)
<b>Excess of Revenue and Transfers Over (Under)</b>				
Expenditures	(69,686)	37,558	204,043	<u>\$ 166,485</u>
<b>Fund Balance - Beginning of year</b>	362,629	362,629	362,629	
<b>Fund Balance - End of year</b>	<u>\$ 292,943</u>	<u>\$ 400,187</u>	<u>\$ 566,672</u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Local Streets Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
State sources	\$ 131,291	\$ 134,177	\$ 133,211	\$ (966)
Interest earnings	<u>5,000</u>	<u>5,436</u>	<u>4,117</u>	<u>(1,319)</u>
Total revenue	136,291	139,613	137,328	(2,285)
<b>Transfer from Other Funds</b>	<u>-</u>	<u>-</u>	<u>1,890</u>	<u>1,890</u>
Total revenue and transfers	136,291	139,613	139,218	(395)
<b>Expenditures</b>				
General government	15,000	15,000	15,000	-
Highways and streets	<u>158,389</u>	<u>159,725</u>	<u>143,834</u>	<u>15,891</u>
Total expenditures	<u>173,389</u>	<u>174,725</u>	<u>158,834</u>	<u>15,891</u>
<b>Excess of Expenditures Over Revenue and Transfers</b>	(37,098)	(35,112)	(19,616)	<u><b>\$ 15,496</b></u>
<b>Fund Balance - Beginning of year</b>	<u>163,095</u>	<u>163,095</u>	<u>163,095</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 125,997</b></u>	<u><b>\$ 127,983</b></u>	<u><b>\$ 143,479</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Fund Municipal Streets Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue - Interest earnings</b>	\$ 8,000	\$ 4,000	\$ 10,819	\$ 6,819
<b>Proceeds from the Issuance of Debt</b>	<u>4,500,000</u>	<u>4,477,950</u>	<u>4,500,000</u>	<u>22,050</u>
Total revenue and proceeds from issuance of debt	4,508,000	4,481,950	4,510,819	28,869
<b>Expenditures - Highway and streets</b>	977,000	1,233,851	380,222	853,629
<b>Transfer to Other Funds</b>	<u>-</u>	<u>-</u>	<u>279,219</u>	<u>(279,219)</u>
Total expenditures and transfers	<u>977,000</u>	<u>1,233,851</u>	<u>659,441</u>	<u>574,410</u>
<b>Excess of Revenue and Proceeds from the     Issuance of Debt Over Expenditures and     Transfers</b>	3,531,000	3,248,099	3,851,378	<u><b>\$ 603,279</b></u>
<b>Fund Balance - Beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Fund Balance - End of year</b>	<u><b>\$ 3,531,000</b></u>	<u><b>\$ 3,248,099</b></u>	<u><b>\$ 3,851,378</b></u>	

# City of Saline, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Saline Recreation Complex Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Revenue</b>				
Charges for services	\$ 1,164,033	\$ 1,104,828	\$ 968,115	\$ (136,713)
Interest earnings	7,000	1,500	1,287	(213)
Other	83,100	104,100	77,140	(26,960)
Total revenue	1,254,133	1,210,428	1,046,542	(163,886)
<b>Transfer from Other Funds</b>	285,000	370,000	370,000	-
<b>Proceeds from the Issuance of Debt</b>	2,375,000	2,375,000	2,375,000	-
Total revenue, transfers, and proceeds from the issuance of debt	3,914,133	3,955,428	3,791,542	(163,886)
<b>Expenditures</b>				
General government	11,500	11,500	11,500	-
Recreational and cultural	1,205,922	1,222,440	1,166,881	55,559
Capital outlay	168,050	154,550	48,977	105,573
Debt service	255,763	255,763	256,643	(880)
Total expenditures	1,641,235	1,644,253	1,484,001	160,252
<b>Transfer to Escrow Agent</b>	2,325,000	2,325,000	2,325,000	-
Total expenditures and transfer to escrow agent	3,966,235	3,969,253	3,809,001	160,252
<b>Excess of Expenditures and Transfer to Escrow Agent Over Revenue, Transfers, and Proceeds from the Issuance of Debt</b>	(52,102)	(13,825)	(17,459)	<b>\$ (3,634)</b>
<b>Fund Balance - Beginning of year</b>	52,602	52,602	52,602	
<b>Fund Balance - End of year</b>	<b>\$ 500</b>	<b>\$ 38,777</b>	<b>\$ 35,143</b>	

## **Other Supplemental Information**

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# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Balance Sheet June 30, 2004

	General	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Assets</b>				
Cash and cash equivalents	\$ 139,417	\$ 10,435	\$ 94,360	\$ 244,212
Investments	500,509	-	-	500,509
Receivables - Net	85,249	-	-	85,249
Due from other governmental units	104,440	-	-	104,440
Due from other funds	493,209	-	-	493,209
Due from component units	108,081	-	11,054	119,135
Total assets	<u>\$ 1,430,905</u>	<u>\$ 10,435</u>	<u>\$ 105,414</u>	<u>\$ 1,546,754</u>
<b>Liabilities</b>				
Accounts payable	\$ 173,575	\$ -	\$ 41,978	215,553
Accrued and other liabilities	300,548	-	323	300,871
Due to other funds	749	-	-	749
Total liabilities	474,872	-	42,301	517,173
<b>Fund Balances</b>				
Reserved	-	-	63,113	63,113
Unreserved:				
Designated	460,937	-	-	460,937
Undesignated	495,096	10,435	-	505,531
Total fund balances	<u>956,033</u>	<u>10,435</u>	<u>63,113</u>	<u>1,029,581</u>
Total liabilities and fund balances	<u>\$ 1,430,905</u>	<u>\$ 10,435</u>	<u>\$ 105,414</u>	<u>\$ 1,546,754</u>

# City of Saline, Michigan

## Other Supplemental Information Components of the General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2004

	General	Fire Department Special Assessment	Solid Waste and Recycling	Total General Fund
<b>Revenue</b>				
Property taxes	\$ 4,317,535	\$ -	\$ 506,058	\$ 4,823,593
Licenses and permits	311,663	-	-	311,663
Federal sources	114,265	-	-	114,265
State sources	901,078	-	18,561	919,639
Charges for services	805,901	-	4,861	810,762
Fines and court costs	108,831	-	-	108,831
Interest earnings	21,519	2,427	3,460	27,406
Special assessments	2,063	-	-	2,063
Land sale collections	195,827	-	-	195,827
Other	335,408	2,621	-	338,029
Total revenue	7,114,090	5,048	532,940	7,652,078
<b>Expenditures</b>				
Current:				
General government	2,349,762	-	-	2,349,762
Public safety	2,068,028	5,023	-	2,073,051
Public works	580,659	-	524,198	1,104,857
Cemetery	35,831	-	-	35,831
Recreation and culture	454,061	-	-	454,061
Legislative	55,967	-	-	55,967
Building department	237,134	-	-	237,134
Engineering department	222,250	-	-	222,250
Other	85,321	-	-	85,321
Capital outlay	331,912	-	-	331,912
Debt service	357,443	-	-	357,443
Total expenditures	6,778,368	5,023	524,198	7,307,589
<b>Excess of Revenue Over Expenditures</b>	335,722	25	8,742	344,489
<b>Other Financing Sources (Uses)</b>				
Transfers in	43,209	-	-	43,209
Transfers out	(872,186)	-	-	(872,186)
Total other financing sources (uses)	(828,977)	-	-	(828,977)
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(493,255)	25	8,742	(484,488)
<b>Fund Balances - Beginning of year</b>	1,449,288	10,410	54,371	1,514,069
<b>Fund Balances - End of year</b>	<u>\$ 956,033</u>	<u>\$ 10,435</u>	<u>\$ 63,113</u>	<u>\$ 1,029,581</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Economic Development Corporation June 30, 2004

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	\$ 90,316	\$ -	\$ 90,316
Capital assets	<u>97,034</u>	<u>(97,034)</u>	<u>-</u>
Total assets	<u><b>\$ 187,350</b></u>	(97,034)	90,316
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,359	-	4,359
Due to primary government	<u>8,824</u>	<u>-</u>	<u>8,824</u>
Total liabilities	13,183	-	13,183
<b>Fund Equity</b>			
Investment in general fixed assets	97,034	(97,034)	-
Fund balance - Unreserved - Designated for subsequent year's expenditures	<u>77,133</u>	<u>(77,133)</u>	<u>-</u>
Total fund equity	<u>174,167</u>	<u>(174,167)</u>	<u>-</u>
Total liabilities and fund equity	<u><b>\$ 187,350</b></u>		
<b>Net Assets - Unrestricted</b>		<u>77,133</u>	<u>77,133</u>
Total net assets		<u><b>\$ -</b></u>	<u><b>\$ 77,133</b></u>



# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Economic Development Corporation Year Ended June 30, 2004

	Modified Accrual Basis			Statement of Activities
	Budget	Actual	Adjustments	
<b>Revenue</b>				
Contribution from the Tax Increment Finance				
Authority of the City of Saline	\$ 135,000	\$ 135,000	\$ -	\$ 135,000
Fees and charges for services	6,300	7,107	-	7,107
Interest	500	437	-	437
	<u>141,800</u>	<u>142,544</u>	<u>-</u>	<u>142,544</u>
<b>Expenditures</b>				
Administrative	20,000	20,000	-	20,000
Community events	59,500	30,158	-	30,158
Community relations	6,000	1,063	-	1,063
Conferences and training	1,100	1,018	-	1,018
Other	2,500	1,213	-	1,213
Professional services	31,830	19,937	-	19,937
Promotional improvements	28,406	12,155	-	12,155
Rental expense	27,578	29,825	-	29,825
Repairs and maintenance	4,000	3,027	-	3,027
Supplies and postage	500	61	-	61
Utilities	4,500	4,549	-	4,549
	<u>185,914</u>	<u>123,006</u>	<u>-</u>	<u>123,006</u>
<b>Excess of Revenue Over (Under) Expenditures/ Change in Net Assets</b>	<u>(44,114)</u>	<u>19,538</u>	<u>-</u>	<u>19,538</u>
<b>Fund Balance/Net Assets - Beginning of year</b>	<u>154,629</u>	<u>154,629</u>	<u>(97,034)</u>	<u>57,595</u>
<b>Fund Balance/Net Assets - End of year</b>	<u><u>\$ 110,515</u></u>	<u><u>\$ 174,167</u></u>	<u><u>\$ (97,034)</u></u>	<u><u>\$ 77,133</u></u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Tax Increment Finance Authority June 30, 2004

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and cash equivalents	<u>\$ 1,283,879</u>	\$ -	\$ 1,283,879
<b>Liabilities and Fund Equity</b>			
<b>Liabilities</b>			
Due to other governmental units	\$ 236,218	-	236,218
Due to primary government	<u>735,435</u>	<u>-</u>	<u>735,435</u>
Total liabilities	971,653	-	971,653
<b>Fund Equity</b> - Fund balance - Unreserved -			
Designated for subsequent year's expenditures	<u>312,226</u>	<u>(312,226)</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 1,283,879</u>		
<b>Net Assets</b> - Unrestricted			
		<u>312,226</u>	<u>312,226</u>
Total net assets		<u>\$ -</u>	<u>\$ 312,226</u>

# City of Saline, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/Net Assets - Budget and Actual Component Unit - Tax Increment Finance Authority Year Ended June 30, 2004

	Modified Accrual Basis			Statement of
	Budget	Actual	Adjustments	Activities
<b>Revenue</b>				
Contribution from the City of Saline - General Fund	\$ -	\$ -	\$ -	\$ -
Property taxes	1,141,826	1,190,143	-	1,190,143
Interest earnings	10,000	11,755	-	11,755
Total revenue	1,151,826	1,201,898	-	1,201,898
<b>Expenditures</b>				
Administrative	180,147	100,147	-	100,147
Capital outlay	-	-	2,389	2,389
Community development:				
Debt service	-	-	300,000	300,000
Distributions to other taxing units	-	326,728	-	326,728
Highways and streets	-	-	144,455	144,455
Other	29,582	24,948	-	24,948
Contributions to City of Saline funds:				
General	191,716	2,389	(2,389)	-
Major Streets	145,306	144,455	(144,455)	-
Saline Recreation Complex	302,000	300,000	(300,000)	-
Water and sewer	497,926	498,082	-	498,082
Contributions to the Economic Development Corporation of the City of Saline	135,000	135,000	-	135,000
Total expenditures	1,481,677	1,531,749	-	1,531,749
<b>Excess of Expenditures Over Revenue/ Change in Net Assets</b>	(329,851)	(329,851)	-	(329,851)
<b>Fund Balance/Net Assets - Beginning of year</b>	642,077	642,077	-	642,077
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 312,226</u>	<u>\$ 312,226</u>	<u>\$ -</u>	<u>\$ 312,226</u>

# City of Saline, Michigan

## Other Supplemental Information Balance Sheet/Statement of Net Assets Component Unit - Local Development Finance Authorities June 30, 2004

	Modified Accrual Basis				Statement of
	Sauk Trail District	Shelton District	Total	Adjustments	Net Assets
<b>Assets</b>					
Cash and cash equivalents	\$ 426,063	\$ 365,063	\$ 791,126	\$ -	\$ 791,126
Capital assets	-	40,749	40,749	-	40,749
Amount available in LDFA - Shelton District					-
General Fund	-	226,431	226,431	(226,431)	-
Amount to be provided for retirement of general long-term debt	-	128,569	128,569	(128,569)	-
Total assets	<u>\$ 426,063</u>	<u>\$ 760,812</u>	<u>\$ 1,186,875</u>	(355,000)	831,875
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ 610	\$ -	\$ 610	-	610
Due to primary government	339,615	179,381	518,996	-	518,996
Long-term debt	-	355,000	355,000	-	355,000
Total liabilities	340,225	534,381	874,606	-	874,606
<b>Fund Equity</b>					
Investment in general fixed assets	-	40,749	40,749	(40,749)	-
Fund balance - Unreserved - Designated for subsequent year's expenditures	85,838	185,682	271,520	(271,520)	-
Total fund equity	85,838	226,431	312,269	(312,269)	-
Total liabilities and fund equity	<u>\$ 426,063</u>	<u>\$ 760,812</u>	<u>\$ 1,186,875</u>		
<b>Net Assets</b>					
Invested in capital assets - Net of related debt				40,749	40,749
Unrestricted				(83,480)	(83,480)
Total net assets				\$ -	\$ (42,731)

# City of Saline, Michigan

	Modified Accrual Basis				
	Sauk Trail District		Shelton District		Total
	Budget	Actual	Budget	Actual	
<b>Revenue</b>					
Property taxes	\$ 291,342	\$ 291,341	\$ 383,248	\$ 383,248	\$ 674,589
Interest earnings	<u>4,000</u>	<u>4,050</u>	<u>4,000</u>	<u>4,824</u>	<u>8,874</u>
Total revenue	295,342	295,391	387,248	388,072	683,463
<b>Expenditures</b>					
Administrative	90,456	73,776	41,000	37,047	110,823
Debt service	-	-	80,380	80,380	80,380
Distribution to other taxing units	-	-	6,000	10,948	10,948
Contributions to City of Saline funds:					
Major streets	187,248	187,156	80,193	80,159	267,315
Water and sewer	<u>152,228</u>	<u>152,460</u>	<u>95,620</u>	<u>95,482</u>	<u>247,942</u>
Total expenditures	<u>429,932</u>	<u>413,392</u>	<u>303,193</u>	<u>304,016</u>	<u>717,408</u>
<b>Excess of Revenue Over (Under)</b>					
Expenditures/Change in Net Assets	(134,590)	(118,001)	84,055	84,056	(33,945)
<b>Fund Balance/Net Assets - Beginning of year</b>	<u>203,839</u>	<u>203,839</u>	<u>142,375</u>	<u>142,375</u>	<u>346,214</u>
<b>Fund Balance/Net Assets - End of year</b>	<u><b>\$ 69,249</b></u>	<u><b>\$ 85,838</b></u>	<u><b>\$ 226,430</b></u>	<u><b>\$ 226,431</b></u>	<u><b>\$ 312,269</b></u>

**Other Supplemental Information**  
**Statement of Revenue, Expenditures, and Changes in**  
**Fund Balance/Net Assets - Budget and Actual**  
**Component Unit - Local Development Finance Authorities**  
**Year Ended June 30, 2004**

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 674,589
<u>-</u>	<u>8,874</u>
-	683,463
-	110,823
212,315	292,695
	10,948
(267,315)	-
<u>-</u>	<u>247,942</u>
<u>(55,000)</u>	<u>662,408</u>
55,000	21,055
<u>(410,000)</u>	<u>(63,786)</u>
<b><u>\$ (355,000)</u></b>	<b><u>\$ (42,731)</u></b>

# **City of Saline, Michigan**

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## **Federal Awards Supplemental Information June 30, 2004**

# City of Saline, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

We have audited the basic financial statements of the City of Saline, Michigan for the year ended June 30, 2004 and have issued our report thereon dated August 20, 2004. Those basic financial statements are the responsibility of the management of the City of Saline, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Saline, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 20, 2004

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Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

We have audited the financial statements of the City of Saline, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Saline, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Saline, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 20, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

**Compliance**

We have audited the compliance of the City of Saline, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the City of Saline, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Saline, Michigan's management. Our responsibility is to express an opinion on the City of Saline, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Saline, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Saline, Michigan's compliance with those requirements.

In our opinion, the City of Saline, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

To the Honorable Mayor and  
Members of the City Council  
City of Saline, Michigan

### **Internal Control Over Compliance**

The management of the City of Saline, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Saline, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

August 20, 2004

# City of Saline, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity	Award Amount	Federal Expenditures
		Project/Grant Number		
U.S. Environmental Protection Agency - Passed through the Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds	66.468	7034-01	\$ 6,840,000	\$ 2,467,179
Community Development Block Grant	14.228	Not Available	170,000	110,797
Federal pass-through fund - FEMA Emergency Public Assistance	97.036	161-71140	3,468	3,468
Total federal awards				<u><u>\$ 2,581,444</u></u>

# City of Saline, Michigan

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## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

Revenue from federal sources - As reported on financial statements - Includes all funds	\$ 114,265
Federal revenue not reported as such in the financial statements - Capitalization grant proceeds for State Revolving Fund*	<u>2,467,179</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 2,581,444</b></u>

\* Amount drawn on through June 30, 2004 is included in long-term debt in the basic financial statements

# City of Saline, Michigan

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## **Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Saline, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



# City of Saline, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

# **City of Saline, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

August 20, 2004

Honorable Mayor and Members  
of the City Council  
City of Saline  
100 North Harris Street  
Saline, Michigan 48176

Dear Mayor and Council Members:

We have recently completed our audit of the City's financial statements for the year ended June 30, 2004. As part of our audit, and in addition to the financial report, we offer the following comment /recommendation for your consideration. For your information, we have also provided information on several legislative issues that could impact the City. Before we discuss our specific comments and recommendations, however, we would like to compliment the staff for their continued assistance during our engagement and for the overall positive condition in the financial records and related documentation.

## **ACCOUNTING AND REPORTING ISSUES**

During the course of our audit, we noted that bank reconciliations, although reviewed by the Treasurer, did not include a signature demonstrating that the review took place. We encourage the City to add a line on the bank reconciliations for the reviewer's signature, in order to provide evidence of the review. We reviewed this with the Treasurer during our audit and this procedure has already been implemented subsequent to year end.

## **LEGISLATIVE ISSUES**

### **Revenue Sharing**

As you are aware, revenue sharing payments for the State's fiscal year ended September 30, 2003 were reduced by 3.5 percent through a December 2002 Executive Order. The budget for the State's fiscal year ended September 30, 2004 includes an additional 3 percent reduction in revenue sharing payments from the estimated payments for the State's 2003 fiscal year. These cuts are compounded by reductions that result when sales tax collections are less than what is included in the State's projections. In December 2003, the Governor issued an executive order reducing revenue sharing for the State's fiscal year ended September 30, 2004 an additional 5 percent.

### **Revenue Sharing (Continued)**

In February 2004, the Governor introduced her budget for the State's fiscal year ended September 30, 2005. For cities, villages and townships, the Governor's budget proposal is to keep revenue sharing levels for the September 30, 2005 fiscal year end at the September 30, 2004 fiscal year end levels. However, the proposal eliminates statutory revenue sharing for counties. There is considerable discussion in Lansing about further reductions to state shared revenue from the Governor's budget proposal for fiscal year ended September 30, 2005.

With these major changes in revenue sharing occurring, we realize that the City is regularly seeking information on projected future revenue sharing payments. To assist the City in projecting state shared revenue payments, the Michigan Department of Treasury website is located at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp>.

### **Municipal Finance Act - Reminder**

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities and authorities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. The filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year end (December 31, 2004) and is good through the extended due date of the financial statement filings. The Downtown Development Authority should file as well with the same due dates.

### **Funding of Post-Employment Benefit Obligations**

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the City having an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability would also be disclosed. Lastly, the City would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30-year period. While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. These changes are expected to be effective 2008.

You should be pleased to note that the City has been proactive in analyzing the impact of this new pronouncement and has already taken action in order to address the new GASB pronouncement, including obtaining an actuarial valuation and establishing a trust to prefund the liability.

Honorable Mayor and  
Members of the City Council  
City of Saline

August 20, 2004

We would like to thank the City and all those involved with the audit process for their assistance. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you or assist in the implementation of any of the recommendations. Thank you for the continued opportunity to be of service.

Very truly yours,

**PLANTE & MORAN, PLLC**



Leslie J. Pulver



Martin J. Olejnik